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EDF's response to the Consultation on the Early-Stage Assessment for Anticipatory Investment

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. With around six million electricity and gas customer accounts, including residential and business users, EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

As a key part of EDF, EDF Renewables is one of the UK's leading renewable energy companies, specialising in wind power, solar and battery storage technology. Working closely with our R&D division, we're developing future innovations, including hydrogen technology. We're also investing in decarbonising the UK's transport sector and developing vital power infrastructure for charging electric vehicles.

EDF Renewables has also partnered with DP Energy to bring forward Gwynt Glas, a project to bid into the Celtic Seas leasing round for a floating offshore wind farm in the Celtic Sea with a capacity of 1GW.

EDF welcomes the opportunity to provide our views on the Consultation on the Early-Stage Assessment for Anticipatory Investment. We set out our full responses to the consultation questions in the attachment to this letter.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Natasha Ranatunga on natasha.ranatunga@edfenergy.com, or me.

Yours sincerely,

David Acres

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Attachment

Consultation on the Early-Stage Assessment for Anticipatory Investment
Response from EDF to your questions

<u>Approach to the Early-Stage Assessment</u>
Q1. Do you agree that the later user should assume responsibility for the construction of the coordinated solution should the initial user become delayed?

There is a high likelihood that co-ordinated solution will have multiple users and the complexity of these probable scenarios have not been addressed in this consultation. Not addressing the complexity at this stage in future systems and process designs for offshore wind may lead to challenges later in the process.

We would welcome further clarification from Ofgem on what it believes could trigger the requirement for the later user to assume responsibility for the construction of the coordinated solution should the initial user become delayed. For a later user to assume responsibility if an initial user doesn't connect or a project 'fails' is clear; however, it becomes complicated if it's due to delay. Therefore, there needs to be a clear trigger for when a later user would step in.

We believe that further consideration needs to be given to the practicalities of a later user assuming responsibility for the construction of the coordinated solution, should the initial user become delayed. Depending on the progress of projects we would expect the initial user to have resources in place and a programme of works (potentially including contracts) and transferring these activities may introduce further delays.

In terms of the contractual processes, we are uncertain as to how this could work in practice. If construction contracts are set up with the initial user how could the later user become the contracted party, if necessary? Would there need to be in place a special purpose vehicle to ensure obligations are secure irrespective of whether the initial or later user takes the construction of the coordinated solution forward. In this case, they will both be jointly responsible from the beginning.

Q2. Do you have any views on the Draft Early-Stage Assessment Guidance Document?

<u>Section 3.2.4</u>
The later user takes over if the first is materially delayed i.e. if the later user would end up with earlier Final Investment Decision (FID) (section 3.23). This could introduce further delay, if the later user has to take over negotiation of construction contracts or there are disagreements (how do the parties agree that FID is delayed?). There are additional challenges to consider as projects on similar delivery timelines are also likely to be in direct competition with one another when applying for a Contract for Difference (CfD), so there is an incentive to be the

initial user (and to maintain that position) to keep control. It may be possible to link control to objective project milestones, e.g. if both projects enter a CfD and only the later user wins, then the later user should presumably be able to assume control?

The eligibility assessment criteria means that projects with an Agreement for Lease (AfL) and grid connection agreement are immediately eligible if they can agree with the later user. However, both projects will likely be at the same stage if they were awarded AfL in the same round, in which case how do they decide who should be the initial user?

Section 3.16
Ofgem sets out that submissions to Ofgem for the costs for Anticipatory Investment to be considered should be accompanied by allocations clearly indicated with the methodology and the reasons for using that allocation explained in detail. We would welcome clarification on whether Ofgem will consult with industry on the methodology to be used to determine how to allocate costs of shared infrastructure.

In order to enable Ofgem to effectively compare the applicant's cost submissions with costs from other transmission projects the same methodology should be applied.

Output, Cost Allowances and Material change
Q3. Do you have any views on what should constitute material change for projects?

We envisage that in the early stages it is very likely that costs could change by a large amount and so the threshold for material change should be set at an appropriate level to account for this, otherwise material changes will be too frequent. Please also refer to our answer to Question 5.

Q4. Do you agree with Ofgem's proposed approach to projects which experience material change?

Ofgem's proposed approach to projects which experience material change seems reasonable; however, there is a risk that the approach may introduce a number of additional iterations that may delay project deliveries. As the early-stage assessment will apply to projects at the beginning of the project lifecycles, there could be multiple material cost or technical changes that would require reference back to Ofgem.

Q5. Do you agree with Ofgem's proposed approach to cost disallowances in Anticipatory Investment?

The current Cost Assessment Guidance[1] process is extremely detailed and targeted at fully developed projects with a clear picture of their costs. It may not be appropriate for early-

[1] https://www.ofgem.gov.uk/publications/offshore-transmission-guidance-cost-assessment-2022

stage projects (and may also result a requirement for more Ofgem input). Therefore, we believe that this could benefit from a lighter touch approach, but we recognise that there has to be a process for assessing disallowed costs.

We consider that the 5% allowance for unforeseen increases seems low. This is reinforced by recent events, which have shown that increases of 10% are very possible, noting that this was for much more advanced projects (e.g. CfD AR4 projects) than those that would be submitting this Early Stage Assessment. We believe that there is a high potential for substantial cost uncertainty at relatively early-stage projects, and uncertainty around sequencing/timing for multiple projects.

On a broader point, we have seen an adverse impact on the Weighted Average Cost of Capital (WACC). WACC is a big factor driving economic challenges on the AR4 projects which should be considered alongside the impact of CAPEX increases. Therefore, if Ofgem is seeking to introduce a buffer % figure it might be worth considering that even if cost changes stay within that limit there could be challenges posed to discount rates that developers will face.

EDF
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